

**REVISED**

**INTERIM REPORT NO. 24**

**REPORT TO THE PEOPLE OF SAN DIEGO**

**REGARDING THE SAN DIEGO CITY**

**EMPLOYEES' RETIREMENT SYSTEM**

**REPORT OF THE**

**SAN DIEGO CITY ATTORNEY**

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**Table 4 - Growth in Present Value of Future Benefits 2000-2007**

<b>Year</b>	<b>SDCERS Active, Retired, Participants</b>	<b>Present Value of Future Benefits*</b>	<b>City Payroll</b>	<b>% Increase In Present Value of Future Benefit</b>	<b>% Increase In Payroll</b>
2000	15,718	\$3,681,800,000	\$448,501,827		
2001	16,342	\$3,890,000,000	\$481,863,318	6%	7%
2002	17,051	\$4,382,900,000	\$535,156,545	13%	11%
2003	17,290	\$4,941,000,000	\$533,595,405	13%	0
2004	17,356	\$5,467,447,943	\$540,180,941	11%	1%
2005	17,429	\$5,957,900,719	\$557,630,735	9%	3%
2006	17,647	\$6,475,469,077	\$534,102,801	9%	-4%
2007	17,779	\$6,844,230,197	\$512,440,197	5.69%	-4.06%

\*2000-2004 do not include the present value of Corbett, the 13<sup>th</sup> check, DROP, Supplemental COLA or adjustment for benefit in excess of Internal Revenue Code 415 limits.

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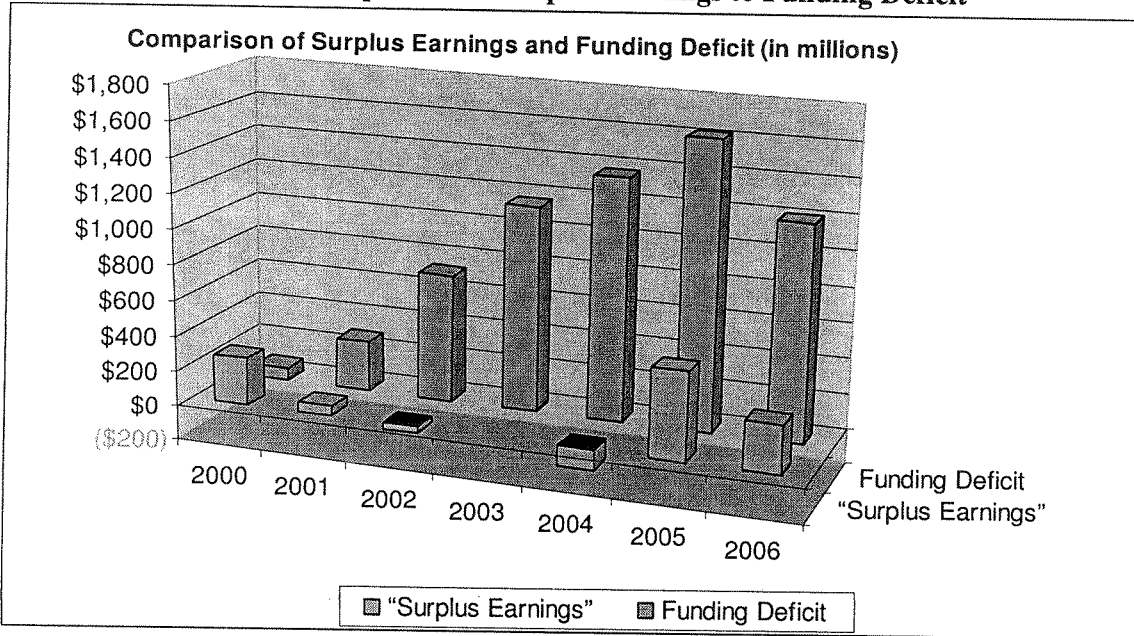
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**Chart 8 - Comparison of Surplus Earnings to Funding Deficit**



## I. Contributions

The pension system is funded by contributions from both the employee and the City. Between 2000 and 2006 the City increased its pension contributions to the pension plan by 807 percent. In 2007 the City lowered its contribution from \$271 million to \$165 million. The increase in the City's contribution in 2006 was a one-time event connected to the settlement of litigation. The City's contribution increased from \$29 million in 2000 to \$271 million in 2006. However, the City also paid a part of the employee's contributions between 2000 and 2007.

The opportunity cost of the funds diverted to pension contributions for unearned or unpaid benefits are essentially a trade-off for city services such as street repairs and park maintenance. Table 13 and Chart 9 show the growth in the City's contributions to the pension system and provide a comparison to the employees' contributions.

**Table 13 - Growth of the City's Contributions to the Pension Plan**

Year	City Contribution Amount	City "pick up" of Employee Contribution	Total City Contribution	Employee Contributions	Total Contributions
2000	\$29,908,000	\$21,986,996	\$51,894,996	\$29,533,246	\$81,428,242
2001	\$31,426,737	\$23,896,431	\$55,323,168	\$36,360,970	\$90,058,836
2002	\$35,254,746	\$25,896,431	\$61,151,177	\$54,640,917	\$115,792,094
2003*	\$39,988,927	\$28,573,503	\$68,562,430	\$62,712,108	\$131,274,538
2004	\$80,937,000	\$30,204,840	\$111,141,840	\$92,886,011	\$204,027,851
2005	\$130,000,000	\$29,893,945	\$159,893,945	\$71,661,307	\$231,555,252
2006	\$271,298,430	\$19,261,595	\$290,560,025	\$41,662,341	\$332,222,366
2007	\$169,126,073	\$18,270,490	\$187,396,563	\$49,074,662	\$236,471,225

\*Employee DROP contribution estimated

**Chart 10 - City Contribution (with City employee pick up) to Pension vs. General Fund**

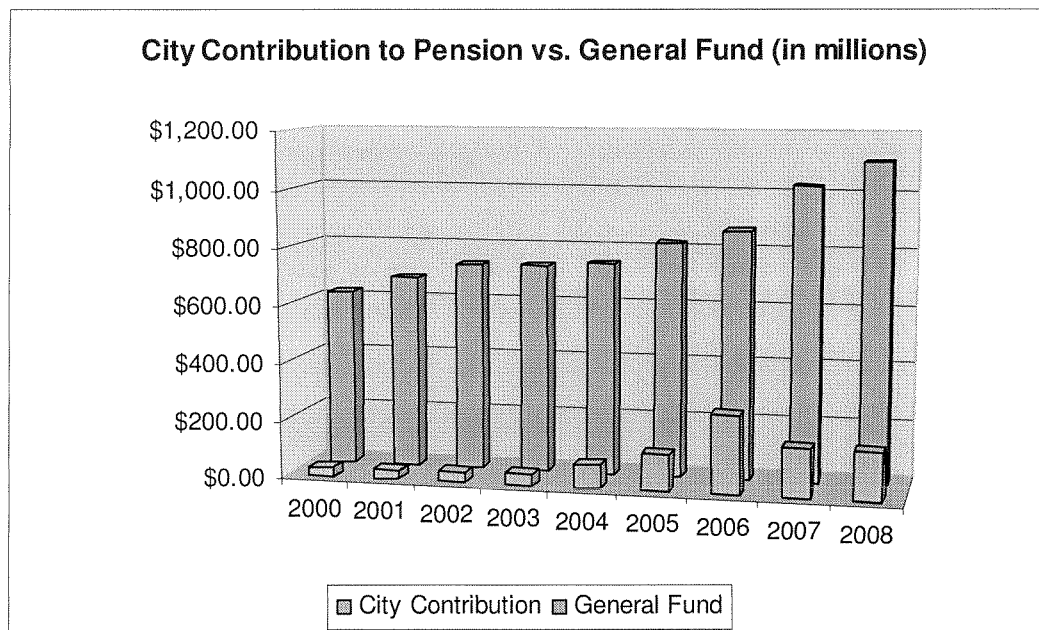


Chart 10 illustrates the alarming growth of the City's contribution to the pension system, as represented by the light bars. One can see the upward growth of the General Fund, as represented by the dark bars, as it is not increasing at the same pace. The practical effect of this disparity of growth will be the continued cuts to funding of City services and the erosion of the quality of these services. In other words, there will be a significant reduction of the quality of life for San Diego residents.

#### **J. Deductions Compared to Contributions**

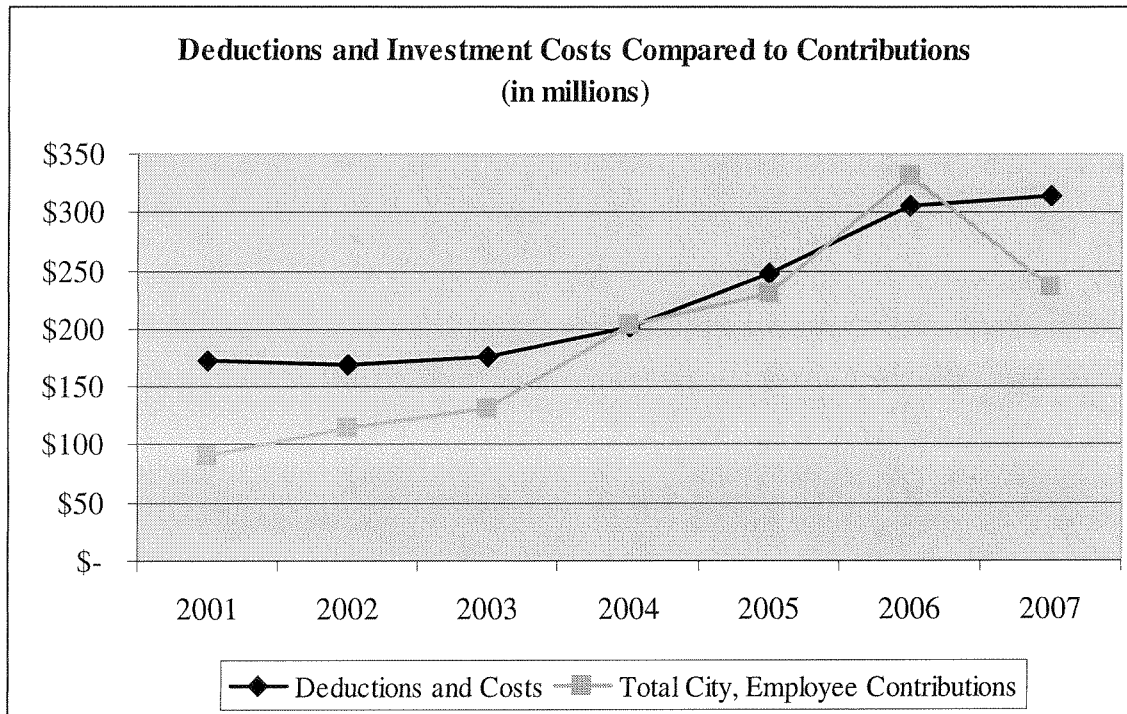
The money spent by SDCERS on benefits and costs reduces pension fund principal and results in smaller earnings. Contributions in several years have been below SDCERS' deductions and costs of operations. Therefore, the pension fund is growing only by investment earnings, with no new principal in most years. The City reduced its base contribution from \$271 million to \$161 million in 2007 that resulted in deductions and costs being substantially higher than contributions. Table 14 and Chart 11 illustrate these points:

**Table 14 - Deductions and Investment Costs Growth Compared to Contributions**

Year	Deductions	Investment Costs	Total Deductions Invest Costs	Total City & Employee Contributions
2000	\$117,678,839	\$9,561,581	\$127,240,420	\$81,428,242
2001	\$162,336,721	\$11,212,248	\$173,542,969	\$90,058,836
2002	\$158,541,303	\$11,273,944	\$169,815,247	\$115,792,094
2003	\$164,948,329	\$11,956,062	\$176,904,391	\$131,274,538
2004	\$187,885,446	\$14,781,389	\$202,666,835	\$204,027,851
2005	\$232,302,504	\$16,330,752	\$248,633,256	\$231,555,252
2006	\$290,261,712	\$15,000,000*	\$305,261,712	\$332,222,366
2007	\$300,000,000*	\$15,000,000*	\$315,000,000*	\$236,471,225

\*estimate

**Chart 11 - Deductions and Investment Costs Compared to Contributions**



**K. Market Value of Pension Assets**

One way to avoid having current and future taxpayers bear the burden of the pension's under-funding is to increase pension assets through investment income. However, SDCERS' data shows that the growth of the market value of the pension plan's assets has not kept pace with the growth of the pension plan's liabilities. The market value of pension assets in 2007 was \$4.6 billion. The present value of future benefits for 2007 was \$6.4 billion. Table 15 and Chart 12 illustrate the growth (and decline) in the market value of pension assets since 2000 and the relationship to present value of future benefits.

**Table 15 - Growth (and Decline) in Market Value of Pension Assets**

Year	Market Value of Assets	Present Value of Future Benefits
2000	\$2,999,010,145	\$3,681,800,000
2001	\$2,807,446,618	\$3,890,000,000
2002	\$2,609,623,272	\$4,382,900,000
2003	\$2,780,080,397	\$4,941,000,000
2004	\$3,368,239,286	\$5,467,447,943
2005	\$3,210,721,975	\$5,957,900,719
2006	\$3,981,931,694	\$6,475,469,077
2007	\$4,641,340,923	\$6,844,230,197